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This cable is not for Internet distribution.

¶1. (U) Introduction: The purpose of this monthly newsletter, initiated in January 2004, is to highlight minerals and energy developments in South Africa. This includes trade and investment as well as supply. South Africa hosts world-class deposits of gold, diamonds, platinum group metals, chromium, zinc, titanium, vanadium, iron, manganese, antimony, vermiculite, zircon, alumino-silicates, fluorspar and phosphate rock, and is a major exporter of steam coal. South Africa is also a leading producer and exporter of ferroalloys of chromium, vanadium, and manganese. The information contained in the newsletters is based on public sources and does not reflect the views of the United States Government. End introduction.

Key

¶2. (U) Key to some of the terminology and abbreviations used is given to facilitate understanding.

BEE (Black Economic Empowerment) - the scheme whereby the South African Government promotes black participation in business.

- t = tons,
- t/d = tons per day,
- c/l = cents per liter,
- t/m = tons per month,
- t/y = tons per year,
- oz = troy ounces (31.1 grams),
- cmg = centimeter grams,
- mcf = million cubic feet,
- tcf = trillion cubic feet,
- R = SA currency (rand),
- MW = megawatts,
- kt = thousand tons,
- bbl/d = barrels per day,
- MW = megawatts,
- PGM = platinum group metals.

HOT ISSUES

New Minister of Minerals and Energy

¶3. (U) On June 22, President Thabo Mbeki appointed Lindiwe Hendricks, the former South African Deputy Minister of Trade and Industry (DTI), Minister of Minerals and Energy (DME) following the appointment of Phumzile Mlambo-Ngcuka as Deputy President. These changes resulted from the dismissal of Jacob Zuma, the former Deputy President. An attorney by training, Ms. Hendricks served as Deputy Minister of Trade and Industry to Minister Alec Erwin from 1999 until April 2004, and thereafter to Minister of Trade and Industry Mandisi Mpahlwa. As Deputy Minister of DTI, she worked to improve export competitiveness, access to new markets, and to support the development of new technologies. She also promoted mining-related activities such as beneficiation, small-scale mining, and women in mining. Her legal background may be valuable for implementing the mineral rights conversion process required by the new Petroleum and Mineral Resources Development Act.

Minister's Advisory Board Launched

¶4. (U) On June 18, the new Minister of Minerals and Energy, Lindiwe Hendricks, officially launched the Minerals and Mining Development Board. Established under Section 57 of the Mineral and Petroleum Resources Development Act the Board will advise the Minister on matters referred to it under the Act, such as sustainable development of the country's mineral resources, black economic empowerment, industry job losses, and dispute resolution surrounding the award of permits or licenses. The Board must promote human resource development in

consultation with the Mining Qualifications Authority, and may report on any matter relating to the application or objectives of the Act. Appointed by the Minister, the Board's members must reflect the gender and racial composition of the country as well as hail from labor, business, government, and civil society. A total of sixteen members have been appointed. The Chairperson is Sandile Nogxina, Director General of the Department of Minerals and Energy (DME). Other Board members include: May Hermanus, Chief Inspector of Mines; Abe Mngomezulu, Deputy Director General, Mineral Policy and Investment Promotion; Con Fauconnier, President of the SA Chamber of Mines and CEO of Kumba Resources; Bridgette Radebe, Chairperson of the SA Mining Development Association and CEO of Mmakau Mining; Mzolisi Diliza, CEO of the SA Chamber of Mines; Jan Bredell, previous Director General of DME; and Nchaka Moloi, previous advisor to the Minister of Minerals and Energy.

MINING

South African Non-Gold Mining Booms

¶5. (U) Non-gold mining production rose by 12.6% year-on-year (y/y) in April, but gold mining production fell by 16.3% y/y, resulting in total mining production rising by 7.1% y/y. The plunge in gold mining was due to industrial action at three of the largest mines, as well as to seismic activity in the NW mining area. In terms of individual minerals and ores, y/y growth in diamonds was 33.5%, chrome 20%, iron ore 17.6%, copper 12.4% manganese 6.5% and PGMs 5.4%. The remaining metallic minerals showed an average 27% y/y growth. For the non-metallics, steam coal y/y output grew 10.9%, building materials by 6.6%, and the bulk remainder such as clays, asbestos, and refractory minerals averaged 56% growth. Cement sales rose by 8.1% y/y to 1.016 million tons in May, after a 28% y/y rise to 971,600 tons in April. This brought the year-to-date increase to 11.1% y/y compared to 2004's 17.3% surge. Sales in May were the first since November 2004 to exceed 1 million tons in one month. Analysts believe this level should be the norm for the rest of the year. Except for gold, high dollar prices for exported commodities and the country's growing economy and high local housing prices make the outlook for South Africa's mineral economy buoyant as long as the rand does not strengthen vis--vis the dollar, to impact export revenues in rands.

IRON ORE

Anglo American Wins Some, Loses Some

¶6. (U) London-based Anglo American, the second largest diversified resource company in the world after BHP-Billiton of Australia, is striving to become a leading iron ore exporter. After much political wrangling with South Africa's Industrial Development Corporation (a South African investment parastatal), Anglo finally managed to buy 67% of Kumba Resources in 2003. However, the government conditioned the sale on limiting Anglo American's ownership to 49% to create an opportunity for an 18% equity ownership for BEE firms. Anglo American is talking with prospective BEE partners interested in purchasing the 18% now. Kumba's Sishen iron ore mine, located in the Northern Cape, is one of ten major iron ore deposits in the world. The mine produces 29 million tons of high-grade ore per year and exports 21 million tons through the Saldanha Bay port via the dedicated Orex rail line operated by Spoornet, the South African Government-owned parastatal.

¶7. (U) Interestingly, Anglo American's purchase of Kumba may result in the loss of an important international asset. Prior to Anglo American's takeover of Kumba, Kumba had entered into a 49/51 agreement with Hancock Prospecting (Australia) to develop the $1.5 billion Hope Downs iron ore project in Western Australia. The promising project would have added 50% to Kumba's global iron ore production. However, Kumba's agreement with Hancock stipulated that, should Kumba experience a change of ownership control, Hancock could buy back Kumba's 49% share in Hope Downs. Anglo's purchase of a 67% share of Kumba triggered this option, and now Hancock appears determined to exercise it. Anglo American went to arbitration to try to stop Hancock, but lost. Hancock's must pay $113 million to Kumba by July 1, 2005 and $85 million by July 1, 2006 to complete the repurchase. Only if Hancock fails to meet these deadlines will Anglo American's position as a world player in the iron ore market be assured. With BHP-Billiton, CVRD of Brazil, and Rio Tinto lurking behind the scenes, no one is

betting that this will happen.

DIAMONDS

De Beers Steps Out: Fifth Avenue Style

¶8. (U) The first De Beers LV (De Beers' joint venture with Louis Vuitton Moet Hennessy) luxury goods store opened on Fifth Avenue on June 22 to both applause and boos from a motley crowd. The opening was De Beers' (the world's largest producer of rough diamonds) first step to doing business directly in the United States in more than 50 years, having faced antitrust cases since 1945. To pave the way to doing direct business in the United States, De Beers pleaded guilty in federal court last year to price-fixing and paid the maximum fine of $10 million. Media reports said that the 30 hecklers accused De Beers and the Government of Botswana of complicity in the "cultural genocide" of the San people. This is because the government had recently evicted a San community from living and hunting in a section of a national game park, a potential diamond mining area. De Beers and the Government of Botswana participate equally in Debswana, a 50/50 joint venture to mine Botwana's diamond resources.

De Beers Exports Scanning Technology

¶9. (U) The September 2004 issue of The ASSAY reported on the De Beers' fast x-ray scanner, called the Lodox Statscan. The scanner, developed for diamond detection and analysis, found an important niche in the medical field as a fast, affordable, and safe digital x-ray machine. Currently, ten systems are operational in the United States and three in South Africa. Subsequent to the report in the September issue, trauma centers in Sudan ordered four Statscan machines - two were delivered and staff training is underway - and one by Dubai. A hospital in the United Arab Emirates purchased one machine. Lodox's Marketing Executive Rodney Sandwith said that he expected sales to triple next year and to double every year thereafter. He believed there were excellent prospects in North Africa and in some of the larger African countries, such as Nigeria. Sandwith added that the opportunities in southern Africa were more limited as many of the countries were less inclined or able to purchase state-of-the-art equipment.

New Life for Kimberley: The Diamond Capital

¶10. (U) Kimberley, the diamond city where it all began in 1871, continues to hold her own 134 years later. Kimberley mines recorded its highest level of production (2,050,627 carats) in 91 years, increasing output by 95% (nearly a million carats) year-on-year from 2003 to 2004. The bulk (90%) of this outstanding performance came from the Combined Treatment Plant built to process the waste (obviously diamondiferous) dumps that dot the area, a legacy of the early days. In South Africa, Kimberley production was second only to De Beers' Venetia diamond-mine in the Limpopo province, which produced 52% of the record 13.7 million carats produced by the seven De Beers Consolidated Mines' (DBCM) South African operations. The target for 2004 is 14 million carats. "It is our intention to be mining in Kimberley for as long as I'm around," said Jonathan Oppenheimer, the 35 year-old Managing Director of DBCM and heir to the De Beers fortune. These results have breathed new life into both DBCM and the City of Kimberley, where De Beers is investing $8 million over three years to redevelop the Big Hole (see picture on title page) into a world-class tourism facility by 2008.

INFRASTRUCTURE

Focus on Spoornet - Spending Plans

¶11. (U) For decades Spoornet, the South African Government-owned rail parastatal, has underperformed operationally and financially. This has severely impacted bulk mineral exports and export growth, which have fled to privately-owned road transport. In an attempt to revitalize Spoornet, Transnet (the parastatal transport holding company) CEO Maria Ramos appointed Siyabonga Gama as the new CEO of Spoornet (the fourth in the past six years). Gama's task is to implement a turn-around plan aimed at making Spoornet a more efficient service provider and more financially viable. Gama said that he is confident that Spoornet's 5-year infrastructure spending program will stabilize the company and reverse the current flow of business to road transport. The spending program is part of Minister for Public Enterprises Alec Erwin's $7.8 billion capital expenditure plan for Transnet. Spoornet's cut is $2.5 billion, of which

Gama plans to spend $600 million on infrastructure and $1 billion each on new locomotives and on upgrading older locomotives and wagons. Gama wants to double annual revenue to $5.6 billion by 2010 by growing Spoornet's market in the following areas:
-- coal by 15% to 86 mt per year;
-- general freight by 82% to 160 mt per year;
-- iron-ore by 28% to 41 mt per year;

OIL AND GAS

ChevronTexaco and SASOL Team up in Nigeria

¶12. (U) The long-delayed multibillion-dollar gas-to-liquids (GTL) project in Nigeria looks set to move ahead. On April 8, ChevronTexaco (Nigeria), a subsidiary of ChevronTexaco Corp, awarded a $1.7 billion engineering, design and procurement contract for the Escravos gas-to-liquids (EGTL) project to Team JKS, a consortium composed of JGC Corporation of Japan, KBR and Snamprogretti. Chevron Nigeria owns 75% of the project, with Nigerian National Petroleum Corporation holding 25%. SASOL, South Africa's oil-from-coal producer, will supply its proprietary technology to the project for a licensing fee and provide 50% of the risk-based finance. The plant will produce 34,000 barrels a day of liquid fuels including diesel, naphtha, and a small amount of liquefied petroleum gas.

¶13. (U) A SASOL spokesperson said the project would provide a major boost to the development of diesel from gas, which was "set to revolutionize the performance of diesel technology and improve air quality by reducing vehicle emissions". The project would significantly reduce gas flaring from oil recovery operations. Moreover, gas-to-liquid diesel is low in aromatics and almost sulfur-free. ChevronTexaco-SASOL's first commercial gas-to-liquids plant in Qatar should come on line early next year. The group was also considering opportunities to build gas-to-liquids plants in Iran and Australia, among other countries.

SASOL Signs MOU for Plant in Pennsylvania

¶14. (U) On April 18, WMPI (Waste Management and Processors Inc.) announced the signing of a Memorandum of Understanding (MOU) with SASOL for the construction of a coal gasification-based liquid fuels production facility near Gilberton, Pennsylvania. Under the MOU, WMPI and SASOL will, subject to a number of conditions, commence negotiations for the use of SASOL's Fischer-Tropsch technology. The Gilberton Integrated Fuels Plant will be a demonstration facility that will reclaim and process 1.4 million tons per year of waste anthracite coal to produce 5,034 barrels per day of ultra-clean transportation liquid fuel and 41 MW of electricity for sale. Successful start-up and operation of this facility may lead to larger-scale commercial plants with 10-12 times the capacity. The United States Department of Energy (DOE) and the National Energy Technology Laboratory (NETL) under the Clean Coal Power Initiate (CCPI) will sponsor the waste-coal-to-clean-liquids project. The WMPI Project team includes:
-- Shell Global Solutions - supplier of gasification technology;
-- Uhde GmbH - Germany-based global engineering, procurement and construction (EPC) contractor for Shell's Coal Gasification Process (SCGP) technology;
-- SASOL - Fischer-Tropsch Liquefaction technology provider;
-- Nexant, Inc. - owner's engineer;
-- ChevronTexaco Products Company - work-up technology provider.

SASOL to Explore in Mozambican Waters

¶15. (U) On June 1, SASOL announced that it had signed an agreement to explore for gas in an 11,000 square kilometers area off the Mozambican coast. The area is directly offshore of the Pande gasfield that supplies SASOL's chemical, fuels, and gas operations in South Africa. The exploration and production concession contract was signed in Maputo by SASOL Petroleum International and the Mozambican Ministry of Mineral Resources. The investment vehicle is SASOL Petroleum Sofala Limitada, a wholly owned SASOL subsidiary, in which SASOL holds an 85% interest, and Empresa Nacional de Hydrocarbonetas, the Mozambican parastatal holds 15%. The agreement is subject to final approval by the Mozambican Cabinet.

South Africa's Integrated Oil and Gas Company

¶16. (U) On May 12, the Competition Commission conditionally approved the merger between SASOL, South Africa's synthetic

fuels and chemical company, and Malaysian national petroleum corporation Petronas (majority owner of Engen), subject to further investigation by the Competition Tribunal. The new entity, Uhambo Oil, would be owned 37.5% each by SASOL and Petronas, and 25% by their black economic empowerment partners: Tshwarisano LFB Investment and Afric Energy Resources. If approved by the Competition Tribunal, Uhambo Oil would control 55% of the country's refining capacity and 40% of the inland retail market. The merger was opposed by the other oil companies which have no inland refining capacity and fear that Uhambo might cease supplying them in Gauteng and other important markets. However, the Competition Commission made its approval conditional on Uhambo continuing to supply petroleum products to these companies until completion of the new $500 million petroleum pipeline from Durban to Johannesburg in 2010. The Competition Tribunal hearings are set for October 3 to 20.
FRAZER